EXHIBIT NO. 8

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

IN RE:

INTERSTATE POWER COMPANY

DOCKET NO.

APPLICATION FOR APPROVAL OF AFFILIATED INTEREST CONTRACT (Customer Accounts Receivable Purchase and Sale Agreement)

DIRECT TESTIMONY

OF

STEVEN F. PRICE

January 4, 2000

Q. Please state your name and business address.

A. My name is Steven F. Price. My business address is 222 W. Washington Avenue, Madison, WI 53703.

Q. By whom are you employed and in what capacity?

A. I am employed by Alliant Energy Corporation ("Alliant Energy") in the capacity of Manager of Treasury Operations. In addition, I am Assistant Treasurer, Alliant Energy Corporate Services, Inc.; Wisconsin Power & Light Company ("WPL"); IES Utilities, Inc. ("IES"); Interstate Power Company ("IPC") and Alliant Energy Resources, Inc. I am responsible for working capital management, bank relations, cash management, short-term finance, asset securitization, bond refinancing and foreign exchange.

Q. Would you please state your educational background?

A. I graduated from the Brigham Young University in 1978, with a Bachelor of Science with a major in Accounting.

Q. Please describe your prior work experience.

A. Upon graduation from Brigham Young, I joined Alexander Grant & Co. (now Grant Thornton International) in Madison, Wisconsin as a Staff accountant in the audit department. In this position I assisted in auditing small and medium sized insurance and manufacturing companies. I also assisted in preparation of business and personal tax returns. In April 1981, I accepted a position as a Financial Analyst with American Breeders Service Division of W. R. Grace & Co. in Deforest, Wisconsin. In this position, I was responsible for business plan development, budget development, financial modeling and capital project analysis. In April 1984, I joined WPL in Madison, Wisconsin as an Accountant II in the Asset Planning Department. As an Accountant II, I was responsible for developing and implementing a computerized system of closing mass work orders, In November of that year, I was promoted to Financial Analyst in WPL's Budget Department. I was responsible for developing short-term financial forecasts for WPL and I also assisted in rate case development, analysis of financial performance and budget variance analysis. In December 1987, I was promoted to Cash Management Supervisor for WPL. In this position, I was responsible for cash management, cash forecasting, short-term financing, short-term investing and management of bank relations for WPL's parent, WPL Holdings, Inc. ("Holdings"), and WPL and provided analysis and support related to issuance of debt and equity securities. In April 1992, I became Assistant Treasurer for Holdings and Assistant Corporate Secretary for Holdings and WPL. In these positions I was responsible for working capital management, bank relations and cash management for Holdings and WPL including issuance of long-term debt and equity securities for Holdings. I further assisted Corporate Secretary in maintaining corporate records and related duties. Finally, in April 1998 I accepted my present position.

Q. Are you a member of any professional societies or organizations?

A. Yes. I am a Certified Public Accountant holding a certificate in the State of Wisconsin. I am also a Certified Cash Manager and a member of the Association of Financial Professionals.

Q. Have you previously testified before any regulatory agency?

A. Yes. I have previously filed testimony before the Minnesota Public Utilities Commission. In addition, I testified before the Illinois Commerce Commission ("Commission") in Docket No. 99-0228.

Q. Please briefly describe the formation of Alliant Energy?

A. On November 10, 1995, Holdings, a holding company incorporated under the laws of the State of Wisconsin; IES Industries Inc., ("Industries") a holding company incorporated under the laws of the State of Iowa; and IPC, entered into an Agreement and Plan of Merger. After the effective date of the merger (April 21, 1998), the name of Holdings was changed to Interstate Energy Corporation ("IEC"). IEC changed its name to Alliant Energy Corporation at its 1999 Annual Meeting.

Q. Could you please describe the corporate structure of Alliant Energy?

A. Under the terms of the merger agreement IPC, IES, a subsidiary of Industries operating as an electric and gas public utility in Iowa; and WPL, operating as an electric and gas public utility in Wisconsin; are utility subsidiaries of Alliant Energy. Alliant Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935. South Beloit Water, Gas & Electric Company ("SBWGE") remains a wholly-owned subsidiary of WPL. Alliant Energy Corporate Services, Inc. is the Alliant Energy subsidiary responsible for the provision of various administrative functions to the Alliant Energy subsidiaries, Alliant Industries, Inc., is the Alliant Energy subsidiary responsible for Alliant Energy's nonregulated business activities.

Q. How will the Alliant Energy merger be able to reduce costs for the merger partners?

A. One way that cost savings will be realized is that Alliant Energy will consolidate certain corporate and administrative functions of Holdings, Industries and IPC, thereby eliminating duplicative positions, reducing other non-labor corporate and administrative expenses and limiting or avoiding duplicative expenditures for administrative and information systems. Other potentially significant cost savings include reduced electric production costs, non-fuel purchasing economies, lower gas supply costs, and other avoided or reduced operation and maintenance costs, such as the deferral of costs associated with adding new generating capacity.

Q. Please describe the business unit organizational structure that Alliant Energy employs.

A. Alliant Energy has generally organized its businesses, for reporting purposes, into four business units. The energy delivery services business unit is headquartered in Cedar Rapids, Iowa and is responsible for the pipes and wires portion of the Alliant Energy operating utility subsidiaries. The generation business unit is located in Madison, Wisconsin and is responsible for the operation of the electric power plants of the Alliant Energy operating utility subsidiaries. The third business unit is Alliant Energy Corporate Services, which is located in Dubuque, Iowa. The last business unit is Alliant Energy Resources, Inc.; which is headquartered in Cedar Rapids, Iowa.

Q. **Has this business unit structure changed the entities subject to the Commission's jurisdiction?**

A. No. The Illinois public utility functions and operations of IPC and SBWGE continue to be owned and operated by IPC and SBWGE respectively, subject to the Commission's jurisdiction,

Q. When did the Commission approve the Alliant Energy merger?

A. The Commission approved the Alliant Energy merger on May 9, 1997, in *Interstate Power Company and South Beloit Water, Gas & Electric Company*, Docket No. 96-0122. As a part of its findings that the Alliant Energy merger was in the public interest, the Commission found that:

> "The evidence establishes the combination of Holdings, Industries and IPC will enable Interstate Energy companies to serve their customers more economically and efficiently in what is becoming an increasingly competitive electric utility industry. Applicants have established that the proposed merger will allow integration of many corporate and administrative functions, and achieve savings through electric system interconnection, joint dispatch, and joint purchasing, among other advantages. The estimated savings expected to be achieved from the merger and reorganization over a ten-year period are in excess of $725 million (not including an estimated $23.6 million savings which will not accrue until jointly-operated gas dispatch systems are placed in service between the years 1999 and 2003)." (p. 16)

The Commission's Order also recognized that many of the corporate and administrative functions would be provided by a service company affiliate; i.e. Alliant Energy Corporate Services. The Commission noted that:

> "The proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers. Applicants have agreed to all conditions proposed by Staff to resolve Staffs concern that unjustified subsidization or "cross-subsidization" of affiliates of the utilities may occur in the future. Applicants have done so upon WPLH's assurance to them that they will have possession or control of all contracts, books, and records of their affiliates who are parties to a contract with Services, at least to the extent of providing Staff with access thereto on a confidential basis." (p. 17)

Also by its Order of May 9, 1997, in Docket No. 96-0122, the Commission approved Service Company Agreements for Alliant Energy. Those agreements have been amended. The Commission approved those amendments in Docket No. 98-0011.

Q. **What** is the purpose of your testimony in this docket?

A. I will describe the development of the customer accounts receivable purchase and sale agreements that have been submitted in this docket. In addition, I will explain the operation of these agreements and the benefits they provide.

Q. Please describe the process that was utilized to develop the customer accounts receivable purchase and sale agreements?

A. WPL and IES currently have in place separate programs under which each company sells its customer accounts receivable to Ciesco, L.P. ("Ciesco"), an accounts receivable investment conduit managed by Citicorp North America, Inc. (the "Agent"). The purpose of these programs is to enable the two utilities to accelerate their receipt of cash from collection of customer accounts receivables, thereby reducing their dependence upon more costly sources of working capital.

Q. Is there a limit to amount of receivables that WPL and IES may sell under the **current** program?

A. Yes. Under the existing WPL receivables program, WPL may sell up to $150 million billed and unbilled receivables. The actual level of receivables sold under this program fluctuates from month to month depending upon the prior month's level of qualifying receivables. Under the existing IES program, IES maintains a constant sales level of $65 million throughout the year, which is the lowest level of qualifying receivables that is expected to occur in any given month during the year. Under the existing programs, WPL and IES serve as collection agents for Ciesco. These programs expire on March 3 1, 2000.

Q. Will, the current program be replaced?

A. Yes.' WPL and IES and Ciesco propose to enter into a new receivables sale program to replace the expiring programs. In addition, IPC will be added to the new program. Ciesco's purchases under the new program will initially be limited to $250 million of combined qualifying receivables outstanding at any one time.

Q. **Please** describe the structure of the new program?

A. Under the new program, WPL, IES and IPC (individually an "Operating Company" and collectively the "Operating Companies") will each organize a wholly-owned, special purpose entity ("SPE"), to which it will sell all of its billed and unbilled accounts receivable representing obligations of purchasers of electricity, natural gas and water and reimbursement obligations of joint owners of utility facilities arising under joint plant operating agreements pursuant to which an Operating Company pays operating and/or capital expenses on behalf of all joint owners (collectively, the "Receivables"), subject to certain program limitations described below. Each of the SPEs will be organized under Delaware law as a single-member limited liability company. It will have nominal capital and will conduct no business operations or own any assets other than the Receivables purchased from its parent Operating Company. The SPEs in turn will resell such Receivables to a newly-formed, special-purpose entity to be jointly owned by the SPEs (herein referred to as "NewCo"). NewCo will also be formed as a Delaware limited liability company. It too will serve merely as a conduit for ultimate sale of the purchased Receivables to Ciesco, and will have no assets or operations other than as contemplated by the agreements described below.

Q. Are the forms of the limited liability company articles of organization and member operating agreements of the SPEs and NewCo attached to IPC's Application?

A. Yes. Forms of the limited liability company articles of organization and member operating agreements of the SPEs and NewCo were attached to IPC's Application as Exhibit Nos. 1 and 2.

Q. What is the purpose of forming the **SPEs?**

A. The' purpose in forming the SPEs is to isolate the Receivables from the Operating Company which has originated them such that, pursuant to Financial Accounting Standards Board Statement No. 125 ("FASB 125"), the sale of the Receivables to the SPEs qualifies for treatment as a true sale of assets by the Operating Companies rather than as a loan secured by the Receivables. This will allow the Receivables to be removed as assets from the books of the Operating Companies. Through NewCo, the Operating Companies will be able to consolidate their Receivables into a much larger pool of Receivables and eliminate duplicate structuring and administrative costs that would be associated with creating and maintaining separate programs with Ciesco.

Q. **Please** describe FASB 125.

A. FASB 125 is entitled "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (June 1996). FASB 125 sets forth various tests which have to be met in order for the transferred assets to be deemed to be isolated from (i.e., out of the control of) the transferor. Special-purpose entities such as those described in this filing are typically used to establish such separateness.

Q. **Could** you please provide a description of the program agreements?

A. Yes. The new receivables program will be implemented through a series of related agreements, as follows: First, each Operating Company (as Seller) will enter into a Receivables Sale Agreement (the "SPE Agreement") with its wholly-owned SPE (as Purchaser), pursuant to which the Operating Company will sell all of its eligible Receivables to the SPE. Services will be designated the initial Collection Agent under this agreement, but will subcontract with the Operating Companies to perform the duties of the Collection Agent, and, in such capacity, each of the Operating Companies will continue to bill its customers and service their accounts. Second, each SPE (as Seller) will enter into a Receivables Purchase and Sale Agreement (the "NewCo Agreement") with NewCo (as Purchaser), pursuant to which the SPE will sell and NewCo will purchase all of the Receivables that the SPE has acquired from its parent Operating Company. Third, NewCo (as Seller) and Ciesco (as Investor) will enter into a Receivables Purchase and Sale Agreement (the "Ciesco Agreement"), pursuant to which NewCo will sell and Ciesco will purchase an undivided percentage ownership interest in the pool of Receivables originated by the Operating Companies. Under the terms of a separate Receivables Purchase and Sale Agreement (the "Citibank Agreement"), Citibank N.A. ("Citibank") would be obligated to purchase the Receivables from NewCo in the event that Ciesco, for any reason, does not purchase the Receivables. Finally, Alliant Energy will execute and deliver a credit support agreement (the "Alliant Energy

Agreement") in favor of Ciesco, the Agent and Citibank pursuant to which Alliant Energy will; provide limited credit support. The forms of the SPE Agreement, the NewCo Agreement, the Ciesco Agreement, the Citibank Agreement and the Alliant Energy Agreement are attached to IPC's Application as Exhibit Nos. 3, 4, 5, 6, and 7, respectively.

Q. Please describe the SPE Agreement (Exhibit No. 3)?

A. Each Operating Company will enter into an SPE Agreement with its wholly-owned SPE pursuant to which the Operating Company will sell and the SPE will purchase, from time to time, all of the Operating Company's Receivables. Under Section 2.01 of the SPE Agreement, the SPE will purchase the Receivables at a discount that takes into account Ciesco's cost of funds and program fees and administrative and servicing costs, all of which are passed through to the SPE by NewCo, and the historical default experience on accounts receivable originated by the Operating Company. The SPE will pay the purchase price in cash, unless it has insufficient cash on hand to pay the full purchase price, in which case a portion of the purchase price will be paid by the issuance of additional membership interests in the SPE to its parent Operating Company. In subsequent months, if the SPE has excess funds on hand from collections of Receivables purchased in previous months, it will distribute such excess to its parent Operating Company as a return of capital.

Q. Will IPC receive any fees from this arrangement?

A. Yes. As indicated, the originating Operating Company (as subcontractor to Services) will perform the duties of the initial Collection Agent having sole responsibility for servicing the Receivables, for which it will be entitled to receive an agent's fee of ¼ of 1% per annum on the average daily amount of the capital ("Capital") invested in its Receivables by Ciesco, as described below.

Q. Please describe the NewCo Agreement (Exhibit No. 4)?

A. NewCo will serve as the conduit through which the Receivables originated by each of the Operating Companies and purchased by the separate SPEs will be aggregated to create a single pool of Receivables. The terms and conditions of the purchase of Receivables by NewCo from the separate SPEs will be the same as the terms and conditions under which the SPEs purchase those Receivables from the Operating Companies under the SPE Agreements, except that NewCo will pay each of the SPEs in cash and/or additional membership interests an amount equal to the purchase price paid by the SPEs to the Operating Companies for the Receivables sold.

Q. Please describe the Ciesco Agreement (Exhibit No. 5)?

A. Under Section 2.01 of the Ciesco Agreement, NewCo (as Seller) will sell and Ciesco (as Investor) may, in its discretion, purchase an undivided percentage ownership interest (a "Share") in the pool of Receivables held by NewCo from time to time. The percentage interest in the pool of Receivables represented by such Share shall, subject to certain contingencies, be calculated by dividing (i) the sum of the Capital invested by the Investor as of the date of computation, the Investor's funding cost, the Collection Agent fee reserve, and other program fees, by (ii) the net Receivables pool balance at the time of computation, i.e., the total of all Receivables, less defaulted Receivables in the pool balance and the amount by which the outstanding Receivables of each customer exceeds the "Concentration Limit" for such customer multiplied by the amount of Capital invested by Ciesco at any time. The Concentration Limit is a limit on the amount of Receivables of any single customer of an Operating Company that may be financed under the program. It is equal to 3% of the pool of Receivables sold by NewCo in any particular period.

Q. How will Ciesco fund its investment in the Share?

A. Under normal circumstances, Ciesco will fund its investment in the Share from the proceeds of commercial paper sales. The applicable rate applied by Ciesco for each calendar month will be equal to the weighted average of the rates at which Ciesco sells commercial paper notes having a term equal to a period not exceeding 270 days, plus dealer commissions and note issuance costs. In addition, Ciesco will charge a program fee equal to $1/8^{th}$ of 1% per annum on the average daily amount of Capital invested by Ciesco, an investor fee equal to 0.01% of the annual average Capital outstanding, plus a one-time structuring fee of $100,000.

Q. Please describe the Citibank Agreement (Exhibit No. 6)?

A. In the event Ciesco is unable to issue commercial paper for any reason, Citibank would be obligated to purchase the Receivables pursuant to the terms of the Citibank Agreement. Under the Citibank Agreement, the applicable funding rate will be based on a Eurodollar borrowing rate for borrowings having a period equal to one, two, three or six months, as selected by NewCo. In the event of an inability to make Eurodollar borrowings, or in the case of borrowing for a period of 29 days or less or in an amount of less than $500,000, then the applicable rate would be a fluctuating rate based on Citibank's base rate or the latest three-week moving average of secondary market morning offering rates for three-month certificates of deposit of major U.S. money market banks. The spread over the reference rates will vary over the life of the program based on market conditions and on changes in the corporate credit rating of Alliant Energy, or, if there is no such rating at the time, the two highest long-term public senior debt ratings of the Operating Companies. Citibank will also charge a liquidity fee of between 0.15% and 0.275% (depending on the corporate credit rating of Alliant Energy) times the amount of Citibank's commitment to purchase interests in the Receivables.

Q. Will the new accounts receivable purchase and sale program be structured so as to satisfy the requirements of FASB 125?

A. Yes.’ In order to satisfy these requirements: (i) the transfers of Receivables from an Operating Company to its wholly-owned SPE must be on terms that the Operating Company believes will result in such transfers being classified as "true sales" in the unlikely event of a bankruptcy proceeding involving the Operating Company; (ii) the SPE, as the purchaser and transferee of the Receivables, must be a "qualifying special purpose entity" within the meaning of FASB 125 and as such will be a legally separate entity engaged only in activities related to the program; (iii) the SPE, and any subsequent purchaser (including, in this case, NewCo and Ciesco), must have the right to pledge or exchange the Receivables; and (iv) the originating Operating Company cannot maintain effective control over the Receivables that are transferred to the SPE.

Q Will the amount of Receivables originated by WPL, IES and IPC vary from time to time in accordance with electric, gas and water consumption by their customers?

A. Yes. As a result of this and other factors, the funds available to NewCo to make a purchase may not match the cost of Receivables available. The proposed program (like the existing programs it replaces) includes a mechanism to accommodate this mismatch. When the amount of Receivables available for sale by the SPEs exceeds the amount of cash NewCo has available, a portion of the purchase price will be paid by the issuance of additional membership interests in NewCo to each of the SPEs in amounts which parallel the additional membership interests issued by each SPE to its parent Operating Company which has originated the Receivables. Conversely, if NewCo develops a substantial cash balance due to collections of previously purchased Receivables exceeding the balance of newly created Receivables available for purchase, NewCo will distribute such excess cash; to the SPEs and the SPEs will distribute such excess cash to the Operating

Companies, in each case as a return of capital. Through this mechanism, it is expected that neither NewCo nor the SPEs will retain substantial cash balances at any time and that substantially all cash realized from the collection of the Receivables (net of the costs of the program and any reductions in the outstanding purchase price of Shares) will be made available to the Operating Companies.

Q. Will the all-in credit spread to the Operating Companies be substantially lower?

A. Yes. Although the actual funding cost will vary depending on, inter *alia*, Ciesco's own funding costs, it is expected that the all-in credit spread to the Operating Companies will be substantially lower than the weighted average cost of permanent capital that the Operating Companies would otherwise have to maintain in order to finance their operations. The savings can be illustrated as follows: Currently, the Operating Companies' average outstanding accounts receivable balance at any one time is about $200 million. The capital required to finance this level of Receivables essentially represents permanent capital of the Operating Companies. The average pre-tax weighted cost of capital of the Operating Companies currently ranges between 13.2% and 14.0%. In contrast, based on a current pre-tax yield on Ciesco's commercial paper of 5.85% and overall transaction fees and expenses estimated not to exceed 25 basis points, the program would result in a pre-tax reduction of more than 7.4 percentage points (or more than 50%) from the Operating Companies' pre-tax weighted average cost of capital.

Q. Will: **IPC's** customers perceive any change in current hilling and collection prodedures?

A. No. As indicated, each Operating Company (as a subcontractor to Services) will perform the duties of the initial Collection Agent with respect to the Receivables originated by it. Consequently, the Operating Companies will continue to perform all of the billing and servicing functions that they now perform, and their customers will not experience any change in current billing and collection procedures. Under certain adverse conditions, including, among others, an unremedied default by Alliant Energy, an Operating Company, an SPE or NewCo, an event of insolvency affecting any of the foregoing, and the loss experience on Receivables in the Receivables pool exceeding certain specified ratios, Ciesco would have the right to designate a new collection agent.

Q. **Will the** services that Services performs change?

A. No. ‘The services provided to NewCo and the SPEs by Services, as Collection Agent, will be the same as the services it now renders to the Operating Companies, and its compensation under the program agreements will be passed on to the Operating Companies.

Q. **Please** describe the Alliant Energy Agreement (Exhibit No. **7)?**

A. Under the Alliant Energy Agreement, Ciesco and Citibank would have limited recourse against Alliant Energy. Such recourse claims include liability for Ciesco's funding costs, the Collection Agent fee, and limited recourse for defaulted Receivables. The recourse limit for defaulted Receivables is calculated by multiplying (i) a percentage equal to the greatest of (a) three times the Concentration Limit (excluding any special concentration limit), (b) three times the greatest 12-month rolling average default ratio for the Receivables over the twelve months ending immediately on the date of calculation, and (c) 9%, by (ii) the amount of Capital invested by Ciesco. Also included is liability for (i) failure to transfer to NewCo or Ciesco a first priority ownership interest in the Receivables; (ii) the breach by an Operating Company, an SPE or NewCo of its representations, warranties and covenants; and (iii) certain indemnity obligations. Neither NewCo's nor Ciesco's recourse to the Operating Companies will include any rights against the Operating Companies should customer defaults on the Receivables result in collections attributable to the Shares sold to Ciesco being insufficient to reimburse Ciesco for the purchase price paid by it for the Shares and its anticipated yield. Ciesco will bear the risk for any credit losses on the Receivables that exceed the reserves for such losses included in the Shares and Ciesco's rights under the Alliant Energy Agreement.

Q. **What is the term of the new program?**

A. The term of the new Receivables sales program is 3 years. NewCo may, upon at least five business days' notice to the Agent, terminate, in whole, or reduce in part, the unused portion of its purchase limit in accordance with the terms and conditions of the Ciesco Agreement. The Ciesco Agreement allows Ciesco to assign all of its rights and obligations under said Agreement (including its Share and the obligation to fund the Share) to other persons, including the providers of its bank facilities. However, any such assignment will not change the nature of the obligations of the Operating Companies, the SPE's or NewCo under the program agreements to which they are parties.

Q. Could you please summarize the benefits to IPC of this new program?

A. Yes. The purpose of this program is to enable IPC and the other Alliant Energy utilities to accelerate their receipt of cash from collection of customer accounts receivables, thereby reducing their dependence upon more costly sources of working capital. Through NewCo, the Operating Companies will be able to consolidate their Receivables into a much larger pool of Receivables and eliminate duplicate structuring and administrative costs that would be associated with creating and maintaining separate programs with Ciesco. Although the actual funding cost will vary depending on, *inter alia*, Ciesco's own funding costs, it is expected that the all-in credit spread to the Operating Companies will! be substantially lower than the weighted average cost of permanent capital that the Operating Companies would otherwise have to maintain in order to finance their operations.

Q. Do you have any final comments?

A. Yes. Since WPL's and IES's current programs expire on March 31, 2000, IPC would like to have the Commission's approval by March 1, 2000 so that IPC can participate in an expeditious fashion

Q. Will the Alliant Energy customer accounts receivable purchase and sale agreements be subject to approval by other regulatory agencies?

A. Yes. The Securities and Exchange Commission, the Public Service Commission of Wisconsin and the Minnesota Public Utilities Commission have been asked to approve these agreements.

Q. Does this conclude your direct testimony in this docket?

A. Yes, it does.

AFFIDAVIT

STATE OF WISCONSIN)
) ss:
COUNTY OF DANE)

Steven F. Price, being duly sworn, deposes and says that the statements contained in the foregoing Direct Testimony are true and correct to the best of his knowledge, inform&on and belief, and that such prepared direct testimony constitutes his sworn testimony in this proceeding.

Steven F. Price

Subscribed and sworn to before me

this 3rd day of January, 2000.

Notary Public
My Commission expires on 11-5-2000

EXHIBIT NO. 9

DRAFT

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

INTERSTATE POWER COMPANY DOCKET NO.

APPLICATION FOR APPROVAL
OF AFFILIATED INTEREST
CONTRACT (Customer Accounts Receivable
Purchase and Sale Agreements)

ORDER

I. PROCEDURAL HISTORY

On _________, Interstate Power Company ("IPC"), (hereinafter referred to as "Applicant"), filed an application ("Application") with the Illinois Commerce Commission ("Commission") pursuant to Section 7-101(3) of the Illinois Public Utilities Act (220 ILCS 5/7-101(3); the "Act") for approval of affiliate interest contracts. IPC is a public utility subject to the Act and provides electric and gas utility service to the public in Illinois.

Pursuant to notice as required by law and the rules and regulations of the Commission, a pre-hearing conference was held in this matter before a duly authorized Hearing; Examiner of the Commission at its offices in Chicago, Illinois, on __________ , 2000. Thereafter, an evidentiary hearing was held at the Commission's Chicago offices on , 2000. Appearances were entered by counsel on behalf of the Applicants and by ____________________ on behalf of the Commission Staff ("Staff'). At the conclusion of the hearing ~~on,~~ __________, 2000, the record was marked "Heard and Taken."

The following witness presented evidence on behalf of Applicants in support of the Application: Steven F. Price.

__________ recommended that the Commission approve the Applicants' Amendments to Affiliated Interest Contract.

No initial briefs and reply briefs were filed, and Applicants tiled a draft order.

A Hearing Examiner's Proposed Order was duly served on the parties. No exceptions were filed by Applicants and Staff.

II. BACKGROUND AND DESCRIPTION OF THE APPLICANT

On November 10, 1995, WPL Holdings, Inc. ("Holdings"), a holding company incorporated under the laws of the State of Wisconsin; IES Industries Inc., ("Industries") a holding company incorporated under the laws of the State of Iowa; and IPC, entered into an Agreement and Plan of Merger. After the effective date of the merger (April 21, 1998), the name of Holdings was changed to Interstate Energy Corporation ("IEC"). Subsequently, IEC has changed its name to Alliant Energy Corporation ("Alliant Energy'?).

Under the terms of that merger agreement IPC, IES Utilities, Inc., a wholly-owned subsidiary of Industries operating as an electric and gas public utility in Iowa; and Wisconsin Power & Light Company ("WPL"), a wholly-owned subsidiary of Holdings operating as an electric and gas public utility in Wisconsin; are wholly owned subsidiaries of IEC. IEC is a registered public utility holding company under the Public Utility Holding Company Act of 1935 subject to the jurisdiction of the Securities and Exchange Commission's ("SEC"). Alliant Energy Corporate Services, Inc. is the Alliant Energy subsidiary responsible for the provision of various administrative functions to the Alliant Energy subsidiaries. Alliant Industries, Inc., is the Alliant Energy subsidiary responsible for Alliant Energy's nonregulated business activities.

IPC is a Delaware Corporation which operates as a public utility in Illinois pursuant to the Act and as a public utility in Iowa and Minnesota.

III. CUSTOMER ACCOUNTS RECEIVABLE PURCHASE AND SALE AGREEMENT

Under the terms of the Merger, Alliant Energy is able to consolidate certain corporate and administrative functions of WPL, IES and IPC, thereby eliminating duplicative positions, reducing other non-labor corporate and administrative expenses and limiting or avoiding duplicative expenditures for administrative and information systems. Other potentially significant cost savings include reduced corporate and administrative programs, reduced electric production costs, non-fuel purchasing economies, lower gas supply costs, and other avoided or reduced operation and maintenance costs, such as the deferral of costs associated with adding new generating capacity. The Illinois public utility functions and operations of IPC continue to be owned and operated by IPC subject to the Illinois Commerce Commission's ("Commission") jurisdiction.

WPL and IES currently have in place separate programs under which each company sells its customer accounts receivable to Ciesco, L.P. ("Ciesco"), an accounts receivable investment conduit managed by Citicorp N. A.., Inc. (the "Agent"). The purpose of these programs is to enable the two utilities to accelerate their receipt of cash from collection of customer accounts receivables, thereby reducing their dependence upon more costly sources of working capital. Under the existing WPL receivables program, WPL may sell up to $150 million billed and unbilled receivables.

The actual level of receivables sold under this program fluctuates from month to month 'depending upon the prior month's level of qualifying receivables. Under the existing IES program, IES maintains a constant sales level of $65 million throughout the year, which is the lowest level of qualifying receivables that is expected to occur in any given month during the year. Under the existing programs, WPL and IES serve as collection agents for Ciesco. These programs expire on March 31, 2000.

WPL and IES and Ciesco propose to enter into a new receivables sale program to replace the expiring programs. In addition, IPC will be added to the new program. Ciesco's purchases under the new program will initially be limited to $250 million of qualifying receivables outstanding at any one time.

The Commission expressly recognized the potential for cost savings when it approved the IEC Merger on May 9, 1997, <u>In the Matter of the Petition by Interstate Power Company for Approval to Merge with IES Industries, Inc. and WPL Holdings, Inc.</u> Docket No. 96-1022. As part of its findings that the IEC Merger was in the public interest,! the Commission found that:

> The evidence establishes the combination of Holdings, Industries and IPC will enable Interstate Energy companies to serve their customers more economically and efficiently in what is becoming an increasingly competitive electric utility industry. Applicants have established that the proposed merger will allow integration of many corporate and administrative functions, and achieve savings through electric system interconnection, joint dispatch, and joint purchasing, among other advantages. (p. 16)

The Commission's May 9, 1997 Order in Docket No. 96-1022 also recognized that many of the corporate and administrative functions would be provided by a service company affiliate; i.e. Alliant Energy Corporate Services, Inc. (the "Service Company"). The Commission noted that:

> The proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers. Applicants have agreed to all conditions proposed by Staff to resolve Staffs concern that unjustified subsidization or "cross-subsidization" of affiliates of the utilities may occur in the future. Applicants have done so upon WPLH's

> assurance to them that they will have possession or control of all contracts, books, and records of their affiliates who are parties to a contract with Services, at least to the extent of providing Staff with access thereto on a confidential basis. (p. 17)

Mr. Price testified to the process that was utilized to develop the customer accounts receivable purchase and sale agreements. WPL and IES currently have in place separate programs under which each company sells its customer accounts receivable to Ciesco,: L.P. ("Ciesco"), an accounts receivable investment conduit managed by Citicorp North America, Inc. (the "Agent"). The purpose of these programs is to enable the two utilities to accelerate their receipt of cash from collection of customer accounts receivables, thereby reducing their dependence upon more costly sources of working capital.:

Mr. Price testified to a limit on the amount of receivables that WPL and IES may sell under the current program. Under the existing WPL receivables program, WPL may sell up to $150 million billed and unbilled receivables. The actual level of receivables sold under this program fluctuates from month to month depending upon the prior month's level of qualifying receivables. Under the existing IES program, IES maintains a constant sales level of $65 million throughout the year, which is the lowest level of qualifying receivables that is expected to occur in any given month during the year. Under the existing programs, WPL and IES serve as collection agents for Ciesco. These programs expire on March 31, 2000.

The current program will be replaced. WPL and IES and Ciesco propose to enter into a new receivables sale program to replace the expiring programs. In addition, IPC will be added to the new program. Ciesco's purchases under the new program will initially be limited to $250 million of combined qualifying receivables outstanding at any one time.

Under the new program, WPL, IES and IPC (individually an "Operating Company" and collectively the "Operating Companies") will each organize a wholly-owned, special purpose entity ("SPE"), to which it will sell all of its billed and unbilled accounts receivable representing obligations of purchasers of electricity, natural gas and water and reimbursement obligations of joint owners of utility facilities arising under joint plant operating agreements pursuant to which an Operating Company pays operating and/or capital expenses on behalf of all joint owners (collectively, the "Receivables"), subject to certain program limitations described below. Each of the SPEs will be organized under Delaware law as a single-member limited liability company. It will have nominal capital and will conduct no business operations or own any assets other than the Receivables purchased from its parent Operating Company. The SPEs in turn will resell such Receivables to a newly-formed, special-purpose entity to be jointly owned by the SPEs (herein referred to as "NewCo"). NewCo will also be formed as a Delaware limited liability company. It too will serve merely as a conduit for ultimate sale of the purchased

Receivables to Ciesco, and will have no assets or operations other than as contemplated by the agreements described below.

The forms of the limited liability company articles of organization and member operating agreements of the SPEs and NewCo were attached to IPC's Application as Exhibit Nos. 1 and 2.

Mr. Price noted the purpose in forming the SPEs is to isolate the Receivables from the Operating Company which has originated them such that, pursuant to Financial Accounting Standards Board Statement No. 125 ("FASB 125"), the sale of the Receivables to the SPEs qualifies for treatment as a true sale of assets by the Operating Companies rather than as a loan secured by the Receivables. This will allow the Receivables to be removed as assets from the books of the Operating Companies. Through NewCo, the Operating Companies will be able to consolidate their Receivables into a much larger pool of Receivables and eliminate duplicate structuring and administrative costs that would be associated with creating and maintaining separate programs with Ciesco.

The FASB 125 is entitled "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (June 1996). FASB 125 sets forth various tests which have to be met in order for the transferred assets to be deemed to be isolated from (i.e., out of the control of) the transferor. Special-purpose entities such as those described in this tiling are typically used to establish such separateness.

The new receivables program will be implemented through a series of related agreements, as follows: First, each Operating Company (as Seller) will enter into a Receivables Sale Agreement (the "SPE Agreement") with its wholly-owned SPE (as Purchaser), pursuant to which the Operating Company will sell all of its eligible Receivables to the SPE. Services will be designated the initial Collection Agent under this agreement, but will subcontract with the Operating Companies to perform the duties of the Collection Agent, and, in such capacity, each of the Operating Companies will continue to bill its customers and service their accounts. Second, each SPE (as Seller) will enter into a Receivables Purchase and Sale Agreement (the "NewCo Agreement") with NewCo (as Purchaser), pursuant to which the SPE will sell and NewCo will purchase all of the Receivables that the SPE has acquired from its parent Operating Company. Third, NewCo (as Seller) and Ciesco (as Investor) will enter into a Receivables Purchase and Sale Agreement (the "Ciesco Agreement"), pursuant to which NewCo will sell and Ciesco will purchase an undivided percentage ownership interest in the pool of Receivables originated by the Operating Companies. Under the terms of a separate Receivables Purchase and Sale Agreement (the "Citibank Agreement"), Citibank N.A. ("Citibank") would be obligated to purchase the Receivables from NewCo in the event that Ciesco, for any reason, does not purchase the Receivables. Finally, Alliant Energy will execute and deliver a credit support agreement (the "Alliant Energy Agreement") in favor of Ciesco, the Agent and Citibank pursuant to which Alliant Energy will provide limited credit support. The forms of the SPE Agreement, the NewCo

Agreement, the Ciesco Agreement, the Citibank Agreement and the Alliant Energy Agreement were attached to IPC's Application as Exhibit Nos. 3, 4, 5, 6, and 7, respectively.

Mr. Price testified that each Operating Company will enter into an SPE Agreement with its wholly-owned SPE pursuant to which the Operating Company will sell and the SPE will purchase, from time to time, all of the Operating Company's Receivables. Under Section 2.01 of the SPE Agreement, the SPE will purchase the Receivables at a discount that takes into account Ciesco's cost of funds and program fees and administrative and servicing costs, all of which are passed through to the SPE by NewCo, and the historical default experience on accounts receivable originated by the Operating Company. The SPE will pay the purchase price in cash, unless it has insufficient cash on hand to pay the full purchase price, in which case a portion of the purchase price will be paid by the issuance of additional membership interests in the SPE to its parent Operating Company. In subsequent months, if the SPE has excess funds on hand from collections of Receivables purchased in previous months, it will distribute such excess to its parent Operating Company as a return of capital.

IPC will receive fees from this arrangement, As indicated, the originating Operating Company (as subcontractor to Services) will perform the duties of the initial Collection Agent having sole responsibility for servicing the Receivables, for which it will be entitled to receive an agent's fee of ¼ of 1% per annum on the average daily amount of the capital ("Capital") invested in its Receivables by Ciesco, as described below.

Mr. Price testified that NewCo will serve as the conduit through which the Receivables originated by each of the Operating Companies and purchased by the separate: SPEs will be aggregated to create a single pool of Receivables. The terms and conditions of the purchase of Receivables by NewCo from the separate SPEs will be the same as the terms and conditions under which the SPEs purchase those Receivables from the Operating Companies under the SPE Agreements, except that NewCo will pay each of the SPEs in cash and/or additional membership interests an amount equal to the purchase price paid by the SPEs to the Operating Companies for the Receivables sold.

Mr. Price testified that under Section 2.01 of the Ciesco Agreement, NewCo (as Seller) will sell and Ciesco (as Investor) may, in its discretion, purchase an undivided percentage ownership interest (a "Share") in the pool of Receivables held by NewCo from time to time. The percentage interest in the pool of Receivables represented by such Share shall, subject to certain contingencies, be calculated by dividing (i) the sum of the Capital invested by the Investor as of the date of computation, the Investor's funding cost, the Collection Agent fee reserve, and other program fees, by (ii) the net Receivables pool balance at the time of computation, i.e., the total of all Receivables, less defaulted Receivables in the pool balance and the amount by which the outstanding Receivables of each customer exceeds the "Concentration Limit" for such customer multiplied by the amount of Capital invested by Ciesco at any time. The Concentration Limit is a limit on the amdunt of Receivables of any single customer of an Operating Company that may be financed under the program. It is equal to 3% of the pool of Receivables sold by NewCo in any particular period.

Under normal circumstances, Ciesco will fund its investment in the Share from the proceeds of commercial paper sales. The applicable rate applied by Ciesco for each calendar month will be equal to the weighted average of the rates at which Ciesco sells commercial paper notes having a term equal to a period not exceeding 270 days, plus dealer commissions and note issuance costs. In addition, Ciesco will charge a program fee equal to 1/8th of 1% per annum on the average daily amount of Capital invested by Ciesco, an investor fee equal to 0.01% of the annual average Capital outstanding, plus a one-tide structuring fee of $100,000.

Mr. Price testified that in the event Ciesco is unable to issue commercial paper for any reason, Citibank would be obligated to purchase the Receivables pursuant to the terms of the Citibank Agreement. Under the Citibank Agreement, the applicable funding rate will be based on a Eurodollar borrowing rate for borrowings having a period equal to one, two, three or six months, as selected by NewCo. In the event of an inability to make Eurodollar borrowings, or in the case of borrowing for a period of 29 days or less or in an amount of less than $500,000, then the applicable rate would be a fluctuating rate based on Citibank's base rate or the latest three-week moving average of secondary market morning offering rates for three-month certificates of deposit of major U.S. money market banks. The spread over the reference rates will vary over the life of the program based on market conditions and on changes in the corporate credit rating of Alliant Energy; or, if there is no such rating at the time, the two highest long-term public senior debt ratings of the Operating Companies. Citibank will also charge a liquidity fee of between 0.15% and 0.275% (depending on the corporate credit rating of Alliant Energy) times the amount of Citibank's commitment to purchase interests in the Receivables,

The new accounts receivable purchase and sale program will be structured so as to satisfy the requirements of FASB 125. In order to satisfy these requirements: (i) the transfers of Receivables from an Operating Company to its wholly-owned SPE must be on terms that the Operating Company believes will result in such transfers being classified as "true sales" in the unlikely event of a bankruptcy proceeding involving the Operating Company; (ii) the SPE, as the purchaser and transferee of the Receivables, must be a "qualifying special purpose entity" within the meaning of FASB 125 and as such will be a legally separate entity engaged only in activities related to the program; (iii) the SPE, and any subsequent purchaser (including, in this case, NewCo and Ciesco), must have the right to pledge or exchange the Receivables; and (iv) the originating Operating Company cannot maintain effective control over the Receivables that are transferred to the SPE.

The amount of Receivables originated by WPL, IES and IPC will vary from time to time in accordance with electric, gas and water consumption by their customers. As a result of this and other factors, the funds available to NewCo to make a purchase may not match the cost of Receivables available. The proposed program (like the existing programs it replaces) includes a mechanism to accommodate this mismatch. When the amount of Receivables available for sale by the SPEs exceeds the amount of cash NewCo has available, a portion of the purchase price will be paid by the issuance of additional membership interests in NewCo to each of the SPEs in amounts which parallel the additional membership interests issued by each SPE to its parent Operating Company which has originated the Receivables, Conversely, if NewCo develops a substantial cash balance due to collections of previously purchased Receivables exceeding the balance of newly created Receivables available for purchase, NewCo will distribute such excess cash to the SPEs and the SPEs will distribute such excess cash to the Operating Companies, in each case as a return of capital. Through this mechanism, it is expected that neither NewCo nor the SPEs will retain substantial cash balances at any time and that substantially all cash realized from the collection of the Receivables (net of the costs of the program and any reductions in the outstanding purchase price of Shares) will be made available to the Operating Companies.

The all-in credit spread to the Operating Companies will be substantially lower. Although the actual funding cost will vary depending on, *inter alia*, Ciesco's own funding costs, it is expected that the all-in credit spread to the Operating Companies will be substantially lower than the weighted average cost of permanent capital that the Operating Companies would otherwise have to maintain in order to finance their operations. The savings can be illustrated as follows: Currently, the Operating Companies' average outstanding accounts receivable balance at any one time is about $200 million. The capital required to finance this level of Receivables essentially represents permanent capital of the Operating Companies. The average pre-tax weighted cost of capital of the Operating Companies currently ranges between 13.2% and 14.0%. In contrast, based on a current pre-tax yield on Ciesco's commercial paper of 5.85% and overall transaction fees and expenses estimated not to exceed 25 basis points, the program would result in a pre-tax reduction of more than 7.4 percentage points (or more than 50%) from the Operating Companies' pre-tax weighted average cost of capital.

IPC's customers will not perceive any change in current billing and collection procedures. As indicated, each Operating Company (as a subcontractor to Services) will perform the duties of the initial Collection Agent with respect to the Receivables originated by it. Consequently, the Operating Companies will continue to perform all of the billing and servicing functions that they now perform, and their customers will not experience any change in current billing and collection procedures. Under certain adverse conditions, including, among others, an unremedied default by Alliant Energy, an Operating Company, an SPE or NewCo, an event of insolvency affecting any of the foregoing, and the loss experience on Receivables in the Receivables pool exceeding certain specified ratios, Ciesco would have the right to designate a new collection agent.

The services that Services performs will not change. The services provided to NewCo and the SPEs by Services, as Collection Agent, will be the same as the services it now renders to the Operating Companies, and its compensation under the program agreements will be passed on to the Operating Companies.

Mr. Price testified that under the Alliant Energy Agreement, Ciesco and Citibank would have limited recourse against Alliant Energy. Such recourse claims include liability for Ciesco's funding costs, the Collection Agent fee, and limited recourse for defaulted Receivables. The recourse limit for defaulted Receivables is calculated by multiplying (i) a percentage equal to the greatest of (a) three times the Concentration Limit (excluding any special concentration limit), (b) three times the greatest 12-month rolling average default ratio for the Receivables over the twelve months ending immediately on the date of calculation, and (c) 9%, by (ii) the amount of Capital invested by Ciesco. Also included is liability for (i) failure to transfer to NewCo or Ciesco a first priority1 ownership interest in the Receivables; (ii) the breach by an Operating Company, an SPE or NewCo of its representations, warranties and covenants; and (iii) certain indemnity obligations, Neither NewCo's nor Ciesco's recourse to the Operating Companies will include any rights against the Operating Companies should customer defaults on the Receivables result in collections attributable to the Shares sold to Ciesco being insufficient to reimburse Ciesco for the purchase price paid by it for the Shares and its anticipated yield. Ciesco will bear the risk for any credit losses on the Receivables that exceed the reserves for such losses included in the Shares and Ciesco's rights under the Alliant Energy Agreement.

The term of the new Receivables sales program is 3 years, NewCo may, upon at least five business days' notice to the Agent, terminate, in whole, or reduce in part, the unused portion of its purchase limit in accordance with the terms and conditions of the Ciesco Agreement. The Ciesco Agreement allows Ciesco to assign all of its rights and obligations under said Agreement (including its Share and the obligation to fund the Share) to other persons, including the providers of its bank facilities, However, any such assignment will not change the nature of the obligations of the Operating Companies, the SPEs or NewCo under the program agreements to which they are parties.

Mr. Price testified as to the benefits to IPC of this new program. The purpose of this program is to enable IPC and the other Alliant Energy utilities to accelerate their receipt of cash from collection of customer accounts receivables, thereby reducing their dependence upon more costly sources of working capital. Through NewCo, the Operating Companies will be able to consolidate their Receivables into a much larger pool of Receivables and eliminate duplicate structuring and administrative costs that would be associated with creating and maintaining separate programs with Ciesco. Although the actual funding cost will vary depending on, *inter alia*, Ciesco's own funding costs, it is expected that the all-in credit spread to the Operating Companies will be substantially lower than the weighted average cost of permanent capital that the Operating Companies would otherwise have to maintain in order to finance their operations.

IV. COMMISSION CONCLUSIONS

No issue or dispute between Applicants and Staff remains as the proposed Customer Accounts Receivable Purchase and Sale Agreement.

The evidence established that the combination of Holdings, Industries and IPC will enable Interstate Energy companies to serve their customers more economically and efficiently in what is becoming an increasingly competitive electric utility industry. Applicants have established that the Customer Accounts Receivable Purchase and Sale Agreement will achieve savings by allowing IPC to reduce its dependence on more costly sources; of working capitol.

Accordingly, the Commission's consent to the proposed Customer Accounts Receivable Purchase and Sale Agreements is granted, with the customary reservation pursuant to Section 7-101 (3), that such consent does not constitute approval of payments thereunder for the purpose of computing expense of operation in any rate proceeding.

V. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record, is of the opinion and finds that:

(1) Interstate Power Company is a Delaware corporation providing electric and natural gas services in Illinois and, as such, is a public utility within the meaning of the Act;

(2) the Commission has jurisdiction over Interstate Power Company;

(3) the recitals of fact and law and conclusions reached therein in the prefatory portion of this Order are supported by the evidence of record and are hereby adopted as findings of fact and law;

(4) Applicant's proposed SPE Agreement Exhibit 3) as tiled by Applicant with the Commission, is hereby approved as filed, and meet the requirements of Act Sections 7-204(a), (b) and (c), as applicable;

(5) with regard to future amendments of the SPE Agreement (Exhibit 3), Applicant is encouraged to submit informational filings to Staff and continue to work on a collaborative basis when developing such amendments to that agreement, in order to incorporate to the greatest extent possible Staff's suggestions into proposed Applicant's amendments, and shall submit such new agreements or amendments to the Commission for approval as required by law;

(6) the approval and consent granted herein to SPE Agreement (Exhibit 3) shall not be deemed to constitute approval of payments thereunder for purpose of computing expense of operation in any rate proceeding;

(7) the consent, authority and approval of the Commission should be granted Applicants to do any and all other things not contrary to law or to the rules and regulations of the Commission that are incidental, necessary or appropriate to the performance of any and all acts specifically authorized by the Commission in this Order;

IT IS THEREFORE ORDERED that in order for Applicants' affiliated interests and Applicants' parent and its affiliated subsidiaries to operate under those agreements as to which the Commission has not waived the filing and necessity for approval pursuant to 83 Ill. Adm. Code 105.40, Applicants and their affiliated interests and Applicants' parent and affiliated subsidiaries are hereby authorized to conduct business under those agreements after the effective date of this Order.

IT IS FURTHER ORDERED that consent, authority and approval of the Commission is granted to Applicants to do any and all other things not contrary to law or to the rules and regulations of the commission that are incidental, necessary or appropriate to the performance of any and all acts specifically authorized by the Commission in this Order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.800, this order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this ____ day of ________________, 2000.

Chairman